MINORITY REPORT

OF THE

COMMITTEE ON BANKS

OF THE

SENATE OF PENNSYLVANIA,

IN RELATION TO

THE ISSUE OF SMALL NOTES

BY THE

BANKS.

[Read in Senate, March 20, 1843.

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REPORT.

The minority of the Committee on Banks beg leave to make the following

REPORT:

That whilst they express their high opinion of the talent and ability displayed throughout the report presented to the Senate, by the very efficient Chairman of the Committee, and a general concurrence in the views contained in the report, their entire dissent, however, cannot be withheld, so far as relates to the expediency of granting the Banks of the Commonwealth permission to issue notes of a less denomination than five dollars.

Nor is such dissent the result of a hasty or partial examination of the subject; but of a deep and settled conviction of its entire inadequacy, to effect the purposes desired by its advocates. The restoration of the currency to soundness and uniformity of value, however desirable within itself, cannot, they apprehend, be attained by the grant and exercise of such a privilege; nor the embarrassments pressing so heavily upon the people, and pervading every class of society, be removed or even mitigated.

Both the derangement of the currency, and the distress alluded to, have their origin in causes long since beyond the control of legislation; and indeed, were those causes arrayed before us, the fact would be sufficiently evident, that improvident legislation has, itself, been one of the most prolific. From this the mighty tide of speculation, and the inordinate extension of the credit system, received their strongest impulses; and whilst the unfortunate Act of 1836, and others scarcely less disastrous in their consequences, are fresh before us, legislative *expedients* should be resorted to with extreme caution.

The advocates of the proposition present a three-fold argument. First, that the issue of notes of a less denomination than five dollars, by the Banks, is necessary to fill up the *vacuum* in the currency, occasioned by the withdrawal and cancellation of the issues of 4th May, 1841. Secondly, to enable the Banks to resume specie payments; and lastly, to drive from circulation the small notes of the Banks of other States. The first exhibits a certain degree of plausibility, but

is nevertheless so specious, as to require but a moment's reflection upon the nature and operation of that ill-advised scheme, to detect its fallacy.

The Act of 4th of May, 1841, although ushered into existence under the imposing parade of a "relief measure," afforded no relief to the people; nor improved the currency in the slightest degree. It was doubtless a temporary relief to the government—being essentially a loan, although authorized and negotiated by a process so complex and involved, as to be an enigma to its own framers. It sanctioned the issue of a species of currency, which if not strictly bills of credit, and therefore unconstitutional, had at least, nothing to save them from that imputation, but the slight agency of the Banks in their redemption, and their obligation to receive them in payment of debts. The government was supplied with means; and so far, assuredly, was aided in its fiscal operations by the measure. A direct loan, one of the few rational modes of replenishing an exhausted treasury, would have answered a better purpose. The entire plan was a miserable expedient, the very worst that beggared ingenuity could invent, and only served to evade a dangerous but far manlier mode of supplying the wants of government. But, continued in circulation by the urgent necessities of government, and the manifest interest of the holder, who in truth, never dreamed of "*funding*," according to the provisions of the Act, the inevitable effect was to drive from circulation a similar amount of the then existing currency. Such must ever be the effect of an attempt to increase the amount of the circulating medium, by throwing an inferior currency into competition with one of greater value. The latter immediately depreciates to a corresponding standard, and is driven to a more profitable market. If the relief issues then, operated to the exclusion of so much of the existing currency, how can their withdrawal be followed by any other result, than the immediate return of that previously displaced? To say that the cancellation of these issues will create a *vacuum* in the currency, evinces a total misapprehension of the laws of trade and finance.—Currency, being a necessary and inevitable result of commerce, adapts itself to a healthy state of trade, in perfect proportion; and the present great contraction of the currency, finds its cause, not so much in any supposed scarcity of money or absence of Bank facilities, as in the utter stagnation of trade, and the entire absence of demand for the agricultural and other products of the country, beyond mere consumption. A *vacuum* in the currency is scarcely more comprehensible than a *vacuum* in the air we breathe, or in the waters of the great deep. Any portion violently subtracted, the residue flows in, and a level surface at once is obtained; and although the aggregate amounts in circulation at different periods, may greatly vary, still in the absence of artificial stimulus, the supply will correspond with the demand and operations of commerce.

If the great scarcity of money be the pervading evil complained of, the means of relief are then abundant. Capital was never more plenty—the solvent Banks are willing and anxious to accommodate—and the recent exhibits to the Auditor General show a great ability to

do so; and besides vast amounts of specie have accumulated in the commercial cities and at other points; and yet the currency remains contracted! How then, it may be safely asked, can this privilege either increase the currency of the State, or stir into activity the stagnant waters of trade?

That the solvent Banks of the State require this privilege to enable them to resume specie payments, is equally fallacious. After such a protracted suspension, and in the very favorable condition as exhibited in the reports to the Auditor General, nothing would seem to remain in the way of a prompt compliance with the law, and the interest of the people, but a *sufficient disposition* on the part of the Banks themselves. With all these advantages, and aided by the returning confidence of the people, it is gravely urged that the denomination of their paper should be reduced, to enable them to resume with entire safety! The liabilities of a Bank being measured by the aggregate amount, we are yet to learn how its ability to meet its engagements would be increased by the lessened denomination of its obligations. If unable to redeem one hundred, or one thousand dollars of present liabilities, how can a similar amount be redeemed, although composed of notes of one, two or three dollars? Could such privilege enable the Banks to throw so much *additional* paper into circulation, with entire safety, some advantage, perhaps, might result. But all experience has demonstrated, that the moment the circulation of a Bank *exceeds a certain proportion to its capital*, the safety and stability of such Bank is endangered. The violent expansions, and consequent contractions of paper currency, from whose fatal effects the people are now slowly recovering, proceeded from this grand error. Banks, in the mania of speculative credit, exceeded the limits of safety, and wide spread ruin has been the consequence to the people.

If, then, the position be true, that the solvent Banks are not only able, but willing to increase their accommodations, it cannot be perceived how such privilege will be of the slightest advantage to the people, or at all necessary to enable the Banks to resume specie payments. Doubtless, the privilege would be gladly accepted. The advantages of such a proposition are well understood by bankers; and however unnecessary it might be to them, in view of their ability to accommodate, or to resume specie payments, none, it is presumed, would be so disinterested as to refuse a bonus, equal to twenty-five per cent. on the amount to be issued.

The last argument necessary to be noticed is, that the issue of small notes would drive from circulation the small notes of foreign Banks. This evil, however, cannot be considered as very formidable: such currency having obtained but a local circulation, and would readily be displaced by a resumption of specie payments by the Banks. They circulate as a matter of necessity: the people having no other alternative. But give them a choice between these and a better currency —let the relief notes be withdrawn, and the Banks resume specie payments, and the effect will be irresistible and immediate. If they circulate in preference to the relief issues, it is only because they approximate more closely to the only true test of a solvent paper currency—

"*certain convertibility into specie.*" Let the paper of our own Banks assume this desirable and essential feature—let the holder *know* that his five dollar bill is really worth, and can be converted into so many specie dollars, and confidence will at once take the place of distrust; and the inferior channels of circulation be filled with the constitutional currency. It cannot be doubted that there is an abundance of specie in the country for all the purposes of change; and if such is the fact, is it at all necessary that the last vestige should be driven from circulation, as most assuredly would be the case by the grant of this privilege.

Upon the entire policy of the measure, the minority of the committee can refer with great confidence to the most distinguished authorities. The present Executive of the Commonwealth, in his annual message of 1840, uses the following clear and emphatic language:

"As I have already stated, the New York Banks continue to pay specie, as well as the Banks of several other States; indeed, some Banks that had suspended, have recently resumed. I believe the condition of most of our own Banks is as sound in reality as those of other States. They have as much specie in their vaults, as good debtors, and I know not why they should be less able and willing to meet all demands upon them in coin. It is alleged that the notes issued by the authority of law in some of the States of a less denomination than five dollars, have supplied their Banks with a substitute for specie, and that this has enabled them to hold out against suspension. Perhaps this opinion is to some extent well founded; and it is certainly contenanced by the fact, noticed by all who are conversant with the matter, that, although the Banks in Pennsylvania have suspended specie payments since the 10th day of October last, yet we now find in actual circulation among our citizens more specie than in those States where small notes are allowed to be issued, and their Banks continue to pay specie for their notes. *This is a most conclusive proof of the utility of our law, prohibiting the circulation of notes of a less denomination than five dollars.* Its tendency, as I believe, has been to place in the vaults of the Banks, and in the hands of private citizens of Pennsylvania, a greater amount of gold and silver coin than is to be found in any other State in the Union. *I do not think it would be expedient to repeal the law; on the contrary, I think provision should be made to render its enforcement more effectual, and by which we should drive back, whence they came, the small notes of neighboring States.* They are debasing our circulation—they usurp the place of our own specie, *and they transfer to the issuers of them large profits, arising from their circulation in despite of our law.* If we force them back upon those who put them forth, either Banks or other corporations which are solvent, we shall get, or ought to get, specie in return for them. *Let those States, whose Legislatures choose to authorize the issue of small notes, enjoy the benefit of such currency. Pennsylvania prefers gold and silver as small change for her citizens.*"

Again, in his message of 1841, the following correct position is maintained:

"One of the most immediate advantages resulting to the community from the resumption of specie payments will be the *entire expulsion from circulation of the illegitimate brood of small notes that have been poured in upon us from the neighboring States*, in defiance of law, and of the most active endeavors to suppress them."

The opinion of Mr. Gallatin, whose comprehensive views and accurate information justly entitle him to distinguished consideration as a financier, is worthy of great regard. In a recent treatise upon banking, he says:

"Although the former general laws prohibited only notes under one dollar, a subsequent Act extended the prohibition to all notes under five dollars. *This is in itself a proper measure;* inasmuch as it *lessens the gross amount of issues;* contributes, as far as it goes, in making the wages of labor and the articles of consumption, which are daily retailed, payable in specie; and protects the poor classes of community against the contingency of a depreciated currency. *The prohibition would be more useful and efficient, if it could be extendea to all notes under twenty dollars.*"

In conclusion, the minority of the committee regard the speedy and effectual cancellation of the relief notes as the surest remedy for the depreciation of the currency. This, above all others, will be the most salutary measure in enabling the Banks to resume specie payments; and that desirable result once attained, and supported by a restoration of public confidence, a currency of uniform solvency may be expected. Nor would they be deemed insensible to the great embarrassments of the people; and, pressed down by accumulated evils, the earliest and most energetic interference of the Legislature is certainly demanded. But, cursed as our country has been, above all others, with expedients and legislative nostrums, a serious doubt has arisen, whether, in relation to the currency, at least, further legislation is desirable. So far, the policy has been a resort to wild and untried experiments—a tissue of miserable expedients—from the gigantic prodigy of 1836, "to repeal the State tax, *and for other purposes*," down to the farce of the 4th of May, 1841. And now, this proposition is to continue the series—to be succeeded in a few years by some newer expedient—another monster, perhaps, similar in the turpitude of its creation and destructive effects to that of '36.

It is the deliberate opinion of the minority of the Committee, therefore, that the privilege should not be granted; that it would signally fail in attaining the beneficial results expected by its advocates, and the only effect would be to retard a return to a sound and healthy currency; and they close by hazarding the confident hope, that other great influences are slowly at work, which will more certainly produce those beneficial results. The honesty, perseverance, and innate energies of the people themselves, may soon produce a state of things which legislation can never effect.

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